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NEW HOPE FOR MINICOMPUTERS

MAY 14, 1990

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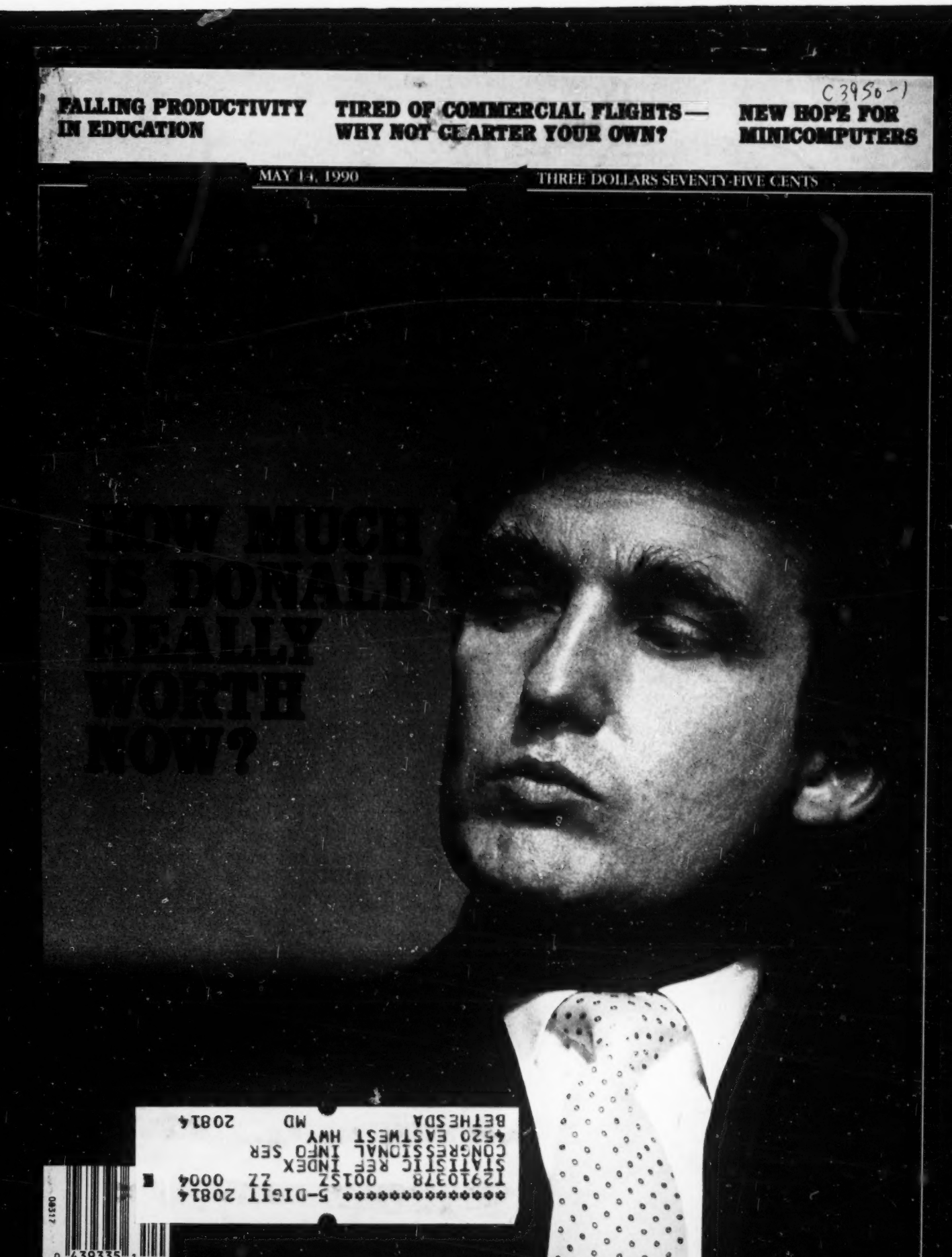

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Forbes

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MAY 14, 1990
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NUMBER 10

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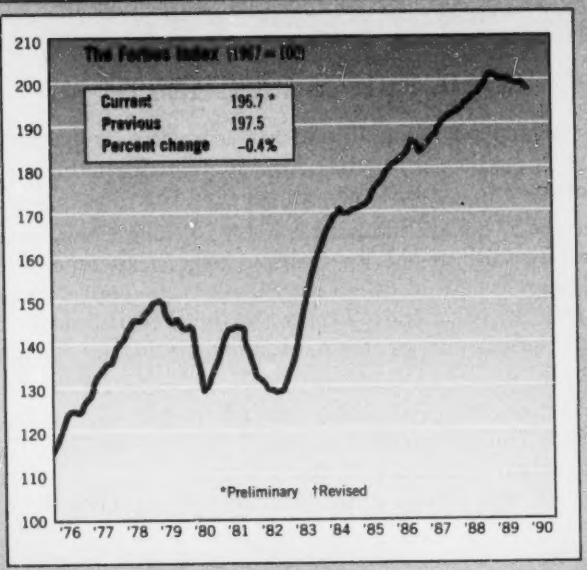
The Forbes Index



The Forbes Index fell 0.4% in March, preliminary data show. If they hold up, the Index will be at its lowest level since September 1988. New housing starts rose 28% from February, but this is the weakest March figure since 1983. March retail sales fell 0.6%, and industrial production fell 0.3%. Soft demand is prompting businesses to work off inventories, according to Edward F. McKelvey, senior economist at Goldman, Sachs. Note: The Federal Reserve has revised the Industrial Production series, so that 1987 now equals 100.

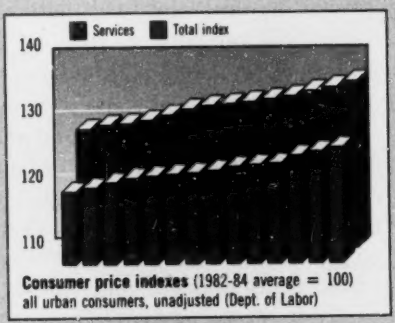
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	-1.4%
Index of leading indicators February vs. January	Dept of Commerce	-1.0%
Trade balance last 12 months	Dept of Commerce	-$96 bil
Producer price index March vs. 1989[2]	Dept of Labor	4.4%
GNP 4th quarter vs. 3rd—annualized growth	Dept of Commerce	1.1%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	5.0%

[1]U.S.- based manufacturers, excludes imports, as of 4/10/90. [2]Finished goods. [3]February 1990.

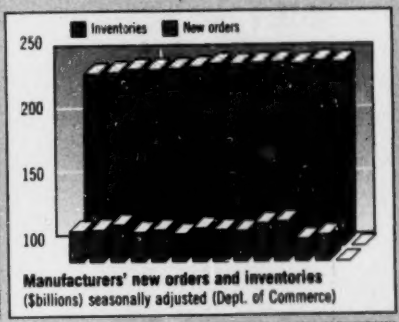
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

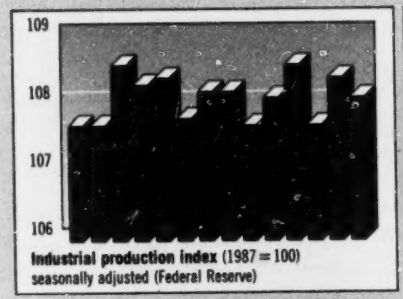
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



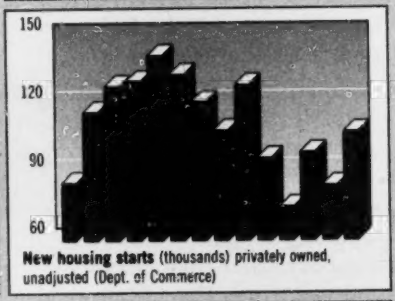
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



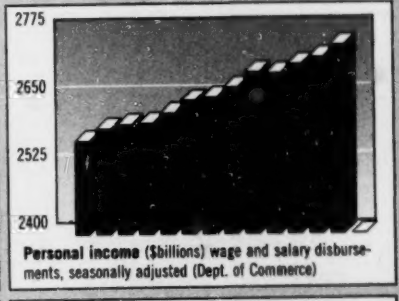
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



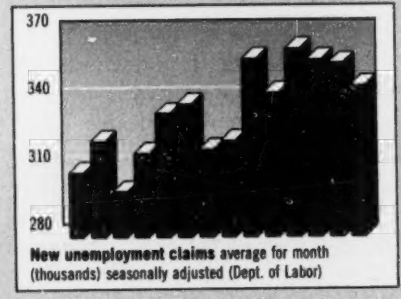
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



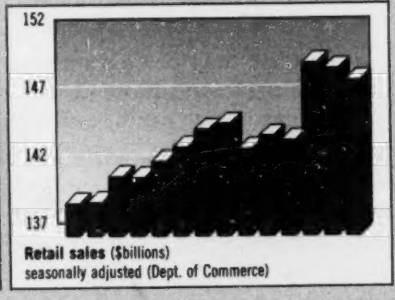
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



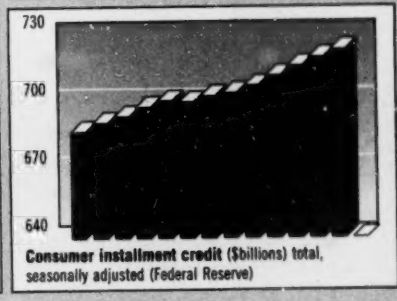
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



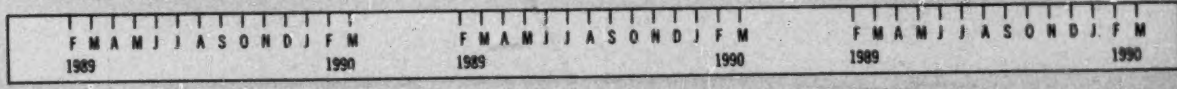
New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



The Forbes Wall Street Review

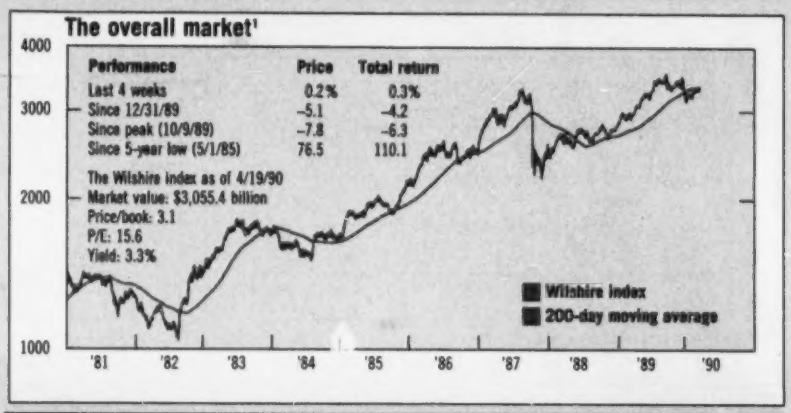
Edited by Eric S. Hardy

The stock market has dropped a long way from its Jan. 2, 1990 peak. Since the start of 1990 the yield on 30-year Treasury bonds has climbed a full percentage point, a real damper for the stock market as well. James P. Craig, portfolio manager of the Janus Fund, says that higher interest rates and lower corporate earnings will continue to make it hard to make money in stocks. Janus Fund had a total return of 46% in 1989 and was one of the best-performing stock funds over the last market cycle *(see p. 156)*. But, during the first quarter, the fund posted a modest loss, as did the overall market. Craig recently increased the fund's cash position to 19%. Among the few stocks he likes are waste-disposal issues such as Waste Management, Chambers Development and Wheelabrator Technologies.

In the past two weeks the price of a barrel of West Texas Intermediate crude oil fell 7%, to $18.05, but this didn't help the Dow transportation average, which slipped 1.7%. The rest of the market also experienced small declines, with the Wilshire index of 6,000 stocks off about 1%.

Note to readers: In the Apr. 30 issue of FORBES, thanks to a production error the tables and chart on this page were not properly updated. For a copy of the correct page, please write the Forbes Statistics Department, 60 Fifth Avenue, New York, N.Y. 10011 or call (212) 206-5515.

The overall market[1]



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Telecom USA	38½	74%	31	9,190	5.5
TCBY Enterprises	24½	19	22	2,798	1.1
Pep Boys-Manny Moe & Jack	12¼	17	19	1,629	1.3
Savannah Foods & Inds	31¼	17	21	419	1.0
Midlantic	16¼	14	3	9,613	3.5

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Comdisco	18	-32%	7	3,090	3.3
Legent	20¼	-21	18	4,970	3.1
Seagate Technology	12½	-19	6	6,317	0.6
TJX Cos	13⅛	-18	11	8,078	4.2
Intergraph	18	-16	12	9,181	2.2

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,246.94	-0.9%
Wilshire index 6,000 stocks, equal weighted	21.12	-0.5
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,711.94	-0.3
S&P 500 Capitalization weighted cross section, major stocks	338.09	-0.8
NYSE Capitalization weighted, all listed common stocks	185.57	-0.8
Amex Capitalization weighted total return stocks, warrants	350.73	-2.9
Nasdaq Capitalization weighted, all issues except warrants	429.00	-1.0
Amex international market index Capitalization weighted, 50 largest ADRs	296.98	-0.8

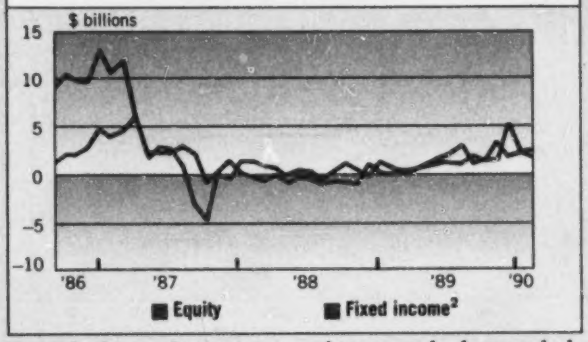
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	851.80	3.7%
Institutional[5] Approximately 200 stocks with high institutional ownership	110.43	-1.8
Individual[5] Approximately 200 stocks with low institutional ownership	101.51	-1.9
Russell 2000 index 2000 stocks with small market values, capitalization weighted	162.78	0.0
Gold[6] (composite quote of 6 major dealers)	$376.50	-0.4
Yen[6] (per $U.S.)	157.25	-0.3
Commodity index[3] (CRB futures index, 1967 = 100)	242.97	0.9
Oil[3] (W Texas Intermediate)	$18.05	-7.2
T bills[6] (90 days)	7.76%	3 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 4/19/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 4/20/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point.

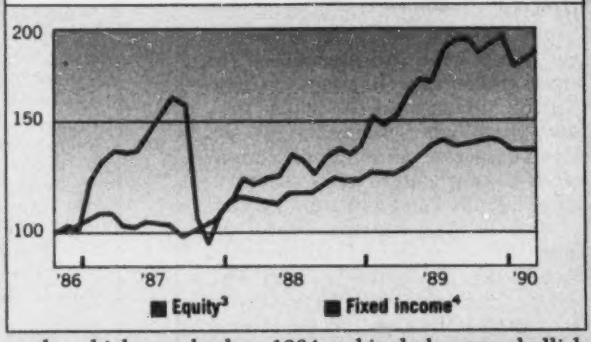
Mutual Fund Review

Edited by John Chamberlain

Sales[1]



Performance



Don't look merely at recent performance, look at a whole market cycle, which comprises one up and one down segment. That has been the FORBES philosophy since we started rating funds 34 years ago. Why? Because the funds that do best in bull markets tend to do the worst in bear markets. And you never know what kind of market is around the corner.

Over the last market cycle, which runs from the August 1987 precrash peak through March 1990, stock and balanced funds have done very poorly. The largest *(lower left)* show annualized returns in single digits.

Bond funds show better results over their very different cycle, which goes back to 1984 and includes more bullish years. Four taxable fixed-income funds show compound annual returns for the past six years topping 16%. During this period the Merrill Lynch Corporate-Government index averaged 12.2% a year. All these figures are total returns (price changes and reinvested income) and, for the funds, are after overhead expenses but before one-time sales charges.

Departing manager Peter Lynch steered Fidelity Magellan to a 6.6% annualized cycle return. That's nearly 2 points better than the S&P 500 index and 3 points better than the Forbes stock fund index.

The Largest Funds

Fund	Forbes rating UP	Forbes rating DOWN	Cycle[6] return	Assets[7] ($mil)
Equity[5]				
Fidelity Magellan Fund	A+	B	6.6%	$12,700
Vanguard Windsor Fund	B	A	4.3	8,063
Investment Co of America	B	B	5.2	5,376
Fidelity Equity-Income Fund	C	A	3.7	5,038
Fidelity Puritan Fund	B	B	5.6	4,862
Templeton World Fund	B	B	3.9	4,715
Washington Mutual Investors	B	A	5.8	4,482
Pioneer II	B	B	3.2	4,382
Affiliated Fund	C	B	2.8	3,671
Mutual Series-Mutual Shares	D	A	8.0	3,402
Taxable Bonds				
Franklin US Govt Secs	D	C	12.6	11,382
Kemper US Govt Secs	C	C	12.4	4,590
Pru-Bache High Yield-B	C	D	9.1	2,480
Vanguard Fixed Inc-GNMA	B	A	13.1	2,149
Putnam High Yield Trust	B	D	9.6	1,980

The Best Performers

Fund	Forbes rating UP	Forbes rating DOWN	Cycle[6] return	Assets[7] ($mil)
Equity[5]				
Eagle Growth Shares	D	C	15.0%	$4
Oppenheimer Gold & Mins	C	F	15.6	164
Fidelity Select-Utilities	D	A	14.3	152
Pru-Bache Utility Fund-B	C	A	14.1	2,306
GT Global Growth-Pacific	A	C	13.8	170
AIM Utility Income Fund	D	A	13.4	143
Janus Fund	B	A	12.7	705
Templeton Foreign Fund	B	B	12.1	564
Berger One Hundred Fund	B	D	11.5	15
United Income Fund	A	A	11.4	1,549
Taxable Bonds				
Vestaur Secs	A	B	16.9	90
Fort Dearborn Income Secs	A+	D	16.7	106
Current Income Shares	A	C	16.2	45
Transamerica Income Shares	A+	B	16.1	122
1838 Bond-Deb Trading Fund	A+	D	15.7	53

Note: To be rated, equity funds must be in existence since 6/30/83; bond funds, 9/30/81. [1]Monthly net sales of open-end funds. Net sales are purchases by investors, including reinvested dividends, less redemptions. [2]Includes tax-free and foreign bond funds. Source: Investment Co. Institute. [3] Index of total return for the 25 largest stock funds in 1986. [4]Index of total return for the 25 largest taxable bond funds in 1986. [5]Includes balanced funds. [6]Total return (annualized), for one market cycle: equity, 8/31/87 to 3/31/90; bonds, 5/31/84 to 3/31/90. [7]As of 12/31/89.

MONEY & INVESTMENTS

The economists are forecasting an anemic economy for this year. Here's why that bodes well for the stock market.

WHY BEARISH IS BULLISH

By Charles E. Babin

The 1990 stock market, as measured by the S&P Composite, opened on a sour note, collapsing 3.8% during the first quarter. A majority of economists foresee bad news ahead. The consensus forecast for this year's real GNP calls for a paltry 1.7% growth—potentially the biggest slowdown since 1982. Some experts even see a recession.

Assuming the soothsayers are correct in their pessimism, now is the time to consider buying stocks.

Equity investments are always problematical. Even in the best of times. Nonetheless, committing to the stock market with recession clouds on the horizon may seem reckless, especially after two years in which equity returns have been so high: Stocks, including dividends, advanced more than 16% in 1988 and 31% last year. From this perspective it's easy to understand why many observers see the market as "overvalued" and vulnerable. But is it?

Stock market assessments often are colored by recent events. Given their success, some investors might think they'd be pushing their luck by remaining bullish. But from a slightly longer time frame, these recent performance figures aren't all that impressive. Measured against its precrash high (Aug. 25, 1987 close 336.77), today's S&P Composite stands just even (Mar. 30, 1990 close 336.69). Allowing for the 12% inflation of the past 30 months, stocks actually are lower than they were 2½ years ago.

As for the recession threat, the fact is that economic slumps usually are associated with bull markets. As shown in the table, the economy has grown at 1.7% or less on eight occasions. Of these, only two (1957 and 1974) coincided with a bear market. What's more, the S&P's mean return during these slowdowns was significantly higher than its post-1950 norm of 13.3%.

One plausible explanation for this rests on the widely accepted theorem that stock prices are forward-looking. During economic downturns, financial markets can be expected to look for recovery. If the exceptional case proves the rule, it's interesting to note that every year listed in the table was followed by an uptick in economic activity, save for 1957 and 1974, both of which preceded recession years.

Economic slumps: bullish or bearish?

Year	Real GNP growth	S&P Composite (total return)
1982	–2.6%	21.6%
1980	–0.2	32.4
1975	–1.3	37.3
1974	–0.5	–26.5
1970	–0.3	4.0
1958	–0.8	43.4
1957	1.7	–10.8
1954	–1.3	52.7
Average	–0.7	19.3

There's reason to believe the current economic/stock market cycle will run true to form. As I discussed in my Oct. 30, 1989 column, three-month Treasury bills traditionally have provided a reliable early warning signal of impending turns in the economy. The tricky part is finding a way to anticipate interest rate changes. Fortunately, there's a solution: the T bill futures market.

Since its inception in January 1976, the Treasury bill futures market has proved remarkably accurate in foretelling the direction interest rates will go. In the most recent example, year-end 1988 futures quotations indicated that T bills would average 8.1% in 1989—a virtual bull's-eye. A fluke? Hardly. Over its 14-year history, this same exercise has been within 75 basis points of estimating the upcoming year's average bill rate—impressive precision considering this was the most volatile period in the history of interest rates.

Credit market behavior is also critical to equity returns. Imagine the impact on the stock market if interest rates doubled. Few would argue that stocks would remain unaffected. Empirical analysis of this historical relationship confirms the sensitivity of equity prices to even small interest rate changes, particularly when it comes to the cyclical auto and housing stocks. Given this correlation, investors stand to benefit by harnessing the data readily available from interest rate trends.

The bottom line is that Treasury bills have backed off their year-ago peak rate of 9.1% and have stabilized at slightly less than 8%. Today's futures market pricing suggests that this improved interest rate environment will continue into next year. If history is a guide, this picture is fully consistent with the anemic economy projected by most economists. A recession is possible. But it would be a mistake to extrapolate, since 1991 should see a resurgence of economic activity, with the depressed auto and housing sectors leading the way. As the prospect of a revitalized economy comes into focus, the stock market should not be indifferent. So conditions are ripe for a bull market to surface before year-end. Watch for rebounds in hard-hit stocks like *Chrysler* (17), *Ford* (46), *GM* (46⅛), *Masco* (25), *Maytag* (16) and *Weyerhaeuser* (26). ■

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